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SUBJECT: NORTHEAST BRAZIL SOCIALIST LEADER SAYS LULA MUST IMPROVE
ECONOMY

¶1. (SBU) Summary. The success or failure of President Luiz Inacio Lula da Silva's second term will depend on Lula's determination to appoint good people and to achieve a higher economic growth rate, according to Eduardo Campos (protect), national president of the Brazilian Socialist Party (PSB) and candidate for governor of Pernambuco. Campos said Lula's re-election is a sure thing, and the Lula camp is already looking beyond it. He said after this fall's election only six or seven parties will survive because of the new threshold law, under which parties failing to get a certain percentage of votes the will lose legal status as parties. Campos expects that the PT (Workers Party) block in Congress will be only slightly reduced from its current 92 seats. Campos also said he did not expect Lula to have any trouble governing during his second term. This report was prepared by visiting Embassy Poloff in Recife and cleared with AmConsul Recife. End summary.

Lula's Challenges: Increase GDP and Get Good People

¶2. (SBU) The success or failure of President Luiz Inacio Lula da Silva's second term will depend on Lula's determination to appoint good people and to achieve a higher economic growth rate, according to PSB president Eduardo Campos. Campos, currently a federal deputy, and Minister of Science and Technology (2004-2006) in the Lula government, met with Recife Principal Officer and visiting Embassy Poloff on September 6 at Consulate Recife. Campos said the growth rate in Brazil at present is so low that it is not only bad for Brazil but for the region and the world.

¶3. (SBU) The other major challenge Campos sees facing Lula at the beginning of his second term is to ensure that he appoints the right people to top jobs. This will require Lula to resist pressure from allied parties to appoint unqualified cronies in exchange for political support. He said Lula is aware of the problem and has been discussing it with his staff. Lula will look for good people he can rely on to help him reach his second term goals, he said, and they will not be from the PT.

Lula Transcends the PT But Is Still the People's Choice

¶4. (SBU) When asked about the widespread perception that Lula is trying to distance himself from the PT, Campos offered the alternative explanation that Lula has now transcended his party. It is not so much a deliberate distancing as a rising above the identification of a single party label. Still, the PT remains popular enough, he said, that it will win 75 to 80 seats in the next congress, only slightly fewer than its current 92 seats, Campos

predicted. He said his own PSB would get about 40 seats, up from ¶27. He added that after this fall's election only six or seven parties will survive because of the new threshold law, under which parties failing to get a certain percentage of votes the will lose legal status as parties. Campos said he did not expect Lula to have any trouble governing during his second term. (Note: Some observers predict that the opposition will have a majority in the Senate, and that an anticipated reduction in government coalition seats in the Chamber of Deputies will make governing difficult for Lula in his second term. End note.)

¶5. (SBU) Campos also said that many voters believe Lula is honest, in spite of the corruption scandals that have abounded in his first term. Other things are more important than corruption -- voters identify with Lula, he speaks their language, and has a personal appeal, Campos said. These are the reasons for Lula's popularity. In comparison, Alckmin does not speak the language of the people, and doesn't know Brazil, he said.

Ethical Questions About Campos

¶6. (SBU) Campos is running for governor in a three-way race against Jose Mendonca Filho of the PFL (Party of the Liberal Front) and Humberto Costa, of the PT. Mendonca is currently polling in the high thirties, and the election is expected to go to a second round, in which case Campos is counting on receiving enough support from Lula to ensure his victory. Campos is the grandson of Miguel Arraes, who was three times governor of Pernambuco. Arraes, although identified with the left, won by forming alliances with the far right. Campos is doing something similar: he has formed an alliance with federal deputy Inocencio Oliveira of the centrist PL (Liberal Party), who exercises influence over as many as fifty mayors in the interior of Pernambuco.

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¶7. (SBU) But Campos has taken on some ethical baggage: Oliveira has been convicted of using slave labor practices on his properties, although the conviction was overturned on appeal. In addition, Campos has an ethical cloud over him from the 1990s when he managed a disastrous state bond default and ensured payments only to political cronies, while others lost their investments. Campos was an official in his grandfather's state government at the time. Moreover, four members of the PSB, the party Campos heads, were among the accused in a recent national scandal involving rigged ambulance sales and kickbacks for congressmen.

¶8. (SBU) Campos and Costa are both candidates of parties in Lula's ruling coalition, and Campos admitted that he and Humberto had made a sort of "non-aggression" pact for the gubernatorial campaign. They are aiming their political fire at Mendonca of the PFL.

¶9. (SBU) Comment: Eduardo Campos's diagnosis of what Lula needs to do may be sensible, but in our conversation he seemed all too willing to underestimate the damage the corruption scandals have done to institutional integrity and Lula's ability to govern. Campos spoke of the corruption scandals as if they happened to someone else, and were not related to his own party. By comparison with his opponent Humberto Costa, Campos can sit comfortably: Costa has been indicted by the federal police for his alleged role in the ambulance scandal, a fact the Mendonca campaign is not letting anyone forget.

SOBEL